March 27, 2008

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20^{th} Street and Constitution Avenue, NW
Washington, D.C., 20551

Re: Proposed rule Amending Regulation Z
Docket No. R-1305

Dear Ms. Johnson,
I have been a mortgage broker in Broward County, Florida since 1989, preceeded by five years of employment with Great Western Bank as a loan originator, also in Broward.
I have concurrently worked as an instructor of the mortgage brokerage State licensure class for Gold Coast schools here in Broward county and in Miami Dade county.
I have what is known as a FNMA shop; that is we do 30 year fixed rate loans as 95% of our business. These loans require the most thorough documentation, along with good credit and verified deposits. These are the safest loans in the business, both for the borrower and for the lenders. I have used the same appraiser for 23 years, the reason is that Bruce Connolly is a professional, finds value when it's there and also comes in "low" when the value isn't there. I use the barometer of few explanations are required by the underwriters for Bruce's appraisals. The value is never pushed; it is what it is.

I am told that virtually none of my loans are slow pay or in default.

I can see any of my clients on the street and have a very nice friendly conversation with any of them.

I never got involved with the subprime loans as a product offering, and the few subprime loans I did make had complete disclosure of rates and terms. I counseled the people about what the loans meant, and in a number of cases the clients ended up not purchasing, it just wasn't the right thing for them to do.

I do not feel that government intervention will solve anything other than make the playing field tilted in one direction or another.

There is no doubt that there was abuse in the mortgage industry, but not just from the broker level. Wall Street gave the business products to sell, and heck knows I didn't make the multi million dollar bonuses that were reportedly paid there. Those bonuses should be returned to offset these insane losses. Mortgage bankers were also in the middle between Wall Street and the brokers, and they were out of control, too. The realtors and appraisers and title companies were there, heck it was a feeding frenzy. There was absolutely no reason to invent or fabricate buyers or borrowers in that market unless one wanted to defraud an institution; anyone with a phone and a calculator could make a very nice living in those years (2002-2005).

What we need is greater barriers to entry for the sales people and tighter underwriting guidelines. Even FNMA, with their desktop underwriting system, was approving 95% ltv loans with back ratios of 66 and 67%. It got to a point that I told my staff that I didn't know what a good loan looked like, it seemed that everything was being approved.

Consumers definitely have a right to know exactly what the costs are going to be on a loan as per Regul;ation Z, and they always do in my office. I attend my closings and if I am off on any of the figures that I can control, I refund the difference to match my good faith estimate on the spot. Sometimes we have to change loan programs, especially since the rules have been stricter, and there are sometimes changes on the good faith estimate. Sometimes those changes include a different loan program since the one originally discussed doesn't fit the borrower's situation, which could affect the broker's compensation, as not all loans are priced exactly the same. Restricting the broker's compensation to the initial disclosure on the Reg Z GFE won't work, since we never are completely sure of a borrower's situation when we take the initial application.

Brokers are an intermediary between lenders and borrowers, indeed, Florida Statute 494 defines a broker as someone who brings borrowers and lenders together, but we represent neither. To stay in the business the length of time I have been involved with it means I have to be fair to both parties.

A direct lender is merely another name of a broker, and with very few exceptions, they all sell their loans. Having different rules for "direct lenders" and brokers will only confuse the public even more.

All disclosures must equally to lenders and brokers for the borrowing public to make a realistic decision and comparison.

I use yield spread premiums to buy down rates, pay for the waive of escrow account, and be able to offer loans with no origination fees, just like the direct lenders. Every one of my clients is aware of my compensation, and nobody has any problem, as I make full disclosure. Direct lenders sell their loans in a great many cases, and the consumer is never aware how the secondary pricing works. The direct lenders offer no points loans where the rate is increased just as brokers do, so what is the difference? By taking yield spread premiums off the table, the consumer actually will pay more.

In the real world I disclose the nature and amount of income I make for my company on a loan. The yield spread premium is clearly noted on the Reg Z good faith estimate of settlement costs at time of application and then again on the hud-1 settlement statement. Just because direct lenders don't have to disclose it doesn't mean they don't receive it. The lending tranches work the same industry wide.

As far as the requirement that the originator to determine that the borrower can make a payment for the next 7 years, I am not sure how that is possible. Divorce, death and disease cannot be predicted, nor can corporate downsizing and changes in the economy in general. One of my primary sources of business over the last 15 years was a division of Johnson and Johnson here in Miami Lakes. Their product feel out of favor and J&J laid off 240 engineers on October 30, 2007; these are tenured professional six figure income people with bachelors, masters and doctorate degrees who were employed on Thursday and let go on Friday. How can an originator ever predict something like that? It's just not possible.

In closing, there is a need for brokers in the mortgage business, just as there is a need for real estate brokers and stock and bond brokers.
Any industry that can be profitable attracts the good guys and some bad ones, too.
The bond brokers who sold the subprime pools to pension funds are just as culpable as the realtor who swears the property will go up in value as is the mortgage broker that secures a loan when there is no way a client can pay it back. But brokers are necessary ion all the industries otherwise an investor would have to buy stocks directly from a corporation (works in some cases, but very few), an owner would have a very difficult time selling their house if there were no brokers, too.
I think that the difference is that realtors have 144 hours of classes to attend to become licensed, stock and bond brokers need a great deal of education to obtain their licenses, but the barriers to entry in the mortgage broker field are minimal. In Florida it's a 24 hour class, a score of 75% on the state test and you are in. Individuals who work for a direct lender don't need the licensure class at all! I think that that is disgraceful. The largest financial transaction that many of the borrowers ever make choreographed by someone with virtually no training.

That is where the problem lies initially. Education is the key to keeping the rif raf out of the industry and keeping the ones in it accountable for the loans they do.

I would lastly like to thank the Board of Governors of the Federal Reserve for considering my comments.

Kindest Regards,

Toby White
President
Toby White, Inc
d/b/a Mortgage by the Sea
4326 East Tradewinds Avenue
Lauderdale by the Sea, Fl., 33308
954-491-5900
tobyw@mortgagebythesea.com